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Message Text

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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
DOE-11 SOE-02 OES-07 DOTE-00 CA-01 VO-03 /119 W
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R 020130Z FEB 78
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TO SECSTATE WASHDC 3015
INFO USDOC WASHDC

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USDOC FOR SILLOWAY

E.O. 11652: N/A
TAGS: EINV, EIND, EFIN
SUBJECT: UPDATE OF INVESTMENT CLIMATE STATEMENT

REF: 77 STATE 244738

1. PAPUA NEW GUINEA OFFERS AN EXCELLENT ENVIRONMENT FOR U.S. INVESTORS. INVESTMENT OPPORTUNITIES ARE PLENTIFUL, ECONOMIC CONDITIONS ARE GOOD AND GOVERNMENT OFFICIALS ARE TOUGH BUT PRAGMATIC NEGOTIATORS WHO WISH TO ATTRACT FOREIGN INVESTMENT AND ACCEPT A FIRM'S DESIRE TO MAKE A PROFIT.

2. ECONOMIC CONDITIONS:
IN ITS FIRST THREE YEARS OF INDEPENDENCE, THE PAPUA NEW GUINEA ECONOMY HAS SHOWN A STABILITY THAT IS UNUSUAL FOR A NEWLY INDEPENDENT NATION. THE COUNTRY'S EXPORTS ARE REASONABLY WELL BALANCED BETWEEN COPPER, COFFEE AND COCOA, AND THE EXISTANCE OF STABILIZATION FUNDS FOR EACH OF THESE EXPORTS HAS MEANT THAT THE ECONOMY HAS BEEN ABLE TO WEATHER SEVERE PRICE FLUCTUATIONS. THE ECONOMIC NEWS FOR 1977 WAS DOMINATED BY HIGH PRICES OF COFFEE AND COCOA WHICH CAUSED
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A 10 PERCENT APPRECIATION OF THE KINA AGAINST THE U.S. DOLLAR AND INCREASED FOREIGN EXCHANGE RESERVES BY 104 PERCENT TO U.S. $431,000,000.
THE OUTLOOK FOR THE COMING YEAR ALSO LOOKS GOOD BUT SOME PROBLEMS MAY BE EMERGING. AN EXPECTED FALL IN WORLD COFFEE PRICES WILL PROBABLY DAMPEN THE BOOM OF THE PAST YEAR. IN ADDITION, THE RATE OF INFLATION

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IS ALSO EXPECTED TO INCREASE AS THE LARGE INCREASE IN
MONEY SUPPLY CAUSED BY THIS YEAR'S HIGH COFFEE PRICES
BEGINS TO WORK ITS WAY THROUGH THE ECONOMY. THE
GOVERNMENT MAY TRY TO OFFSET THIS INCREASE BY FURTHER
KINA UP-VALUATIONS, BUT THE RATE OF INFLATION IS STILL
EXPECTED TO EXCEED THE 4 PERCENT IT HAS RUN FOR THE
PAST SEVERAL YEARS.
FOREIGN INVESTORS CONTINUE TO SHOW AN INTEREST IN PAPUA
NEW GUINEA. THE BIGGEST FOREIGN INVESTMENT IS THE
BOUGAINVILLE COPPER MINE OWNED BY CONZINC-RIO TINTO OF
AUSTRALIA. OTHER MAJOR COPPER PROSPECTS BEING EXAMINED
INCLUDE THE OK TEDI SITE ORIGINALLY DEVELOPED BY THE
U.S. FIRM KENNECOT BUT NOW TAKEN OVER BY THE CONSORTIUM
LED BY AN AUSTRALIAN FIRM BROKEN HILL PTY LTD AND THE
FRIEDA RIVER SITE BEING EXPLORED JOINTLY AT THE MOMENT
BY CARPENTARIA EXPLORATION OF AUSTRALIA AND A JAPANESE
CONSORTIUM. ESSO IS CONTINUING EXPLORATION OF OIL IN
THE GULF OF PAPUA. THE LARGEST U.S. INVESTOR IS
STARKIST WHICH HAS A TUNA OPERATION IN MANUS ISLAND
AND NEW BRITAIN. STARKIST HAS NOW PROPOSED A JOINT
VENTURE FOR TUNA CANNING TO THE GOVERNMENT. THE
PROJECT WOUULD COST US $18 MILLION. THE
AMERICAN FIRM AMAX HAS FOUND CHROMITE IN THE BEACH SAND
OF THE MOROBE COAST AND IS CONTINUING FEASIBILITY
STUDIES.
JAPANESE, BRITISH AND AUSTRALIAN FIRMS ARE ALL INVOLVED
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IN TIMBER, FISHING AND OIL PALM PROJECTS THROUGHOUT
THE ISLAND.

3. TAXATION:
THE CORPORATE INCOME TAX IN PAPUA NEW GUINEA IS 33 1/3
PERCENT. THERE IS AN ADDITIONAL 15 PERCENT WITHHOLDING
TAX ON DIVIDENDS PAID OVERSEAS. IN THE CASE OF COMPANY
BRANCHES, THESE TWO TAXES HAVE BEEN COMBINED INTO A
45 PERCENT PROFIT TAX. OIL COMPANIES ARE TAXED AT
50 PERCENT.
CORPORATIONS IN THE EXTRACTIVE INDUSTRIES
ALSO FACE AN EXCESS PROFIT TAX. IN GENERAL, COMPANIES
ARE CHARGED THE NORMAL TAX RATE UNTIL THEY HAVE RE-
TURNED THEIR INVESTMENT AND EARNED A FAIR RATE OF RETURN.
A FAIR RATE OF RETURN IS GENERALLY DEFINED AS THE
U.S. AAA BOND RATE PLUS A FACTOR TAKING ACCOUNT OF
THE PROJECT'S RISK. 10 PERCENT SEEMS TO BE THE NORMAL
RISK PREMIUM. ONCE A FAIR RATE OF RETURN HAS BEEN
ACHIEVED, THE MARGINAL TAX RISES 70-75 PERCENT.
INDIVIDUALS SHOULD BE AWARE THAT RESIDENTS OF PNG
ARE OBLIGATED TO PAY PERSONAL INCOME TAX ON ALL INCOME
WHETHER EARNED IN PNG OR ABROAD. TAXES PAID TO OTHER

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GOVERNMENTS ON INCOME EARNED ABROAD MAY BE CREDITED
TO ONE'S PNG TAX PUBLICATIONS.

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4. EXCHANGE CONTROLS:
PNG EXCHANGE CONTROLS ARE QUITE LIBERAL. IN GENERAL, THERE ARE NO IMPEDIMENTS TO REPATRIATING PROFITS OR RECEIVING FOREIGN LOANS. FOR A COMPLETE LIST OF REGULATIONS, ONE SHOULD CONSULT THE BANK OF PAPUA NEW GUINEA'S "GUIDE TO EXCHANGE CONTROL IN PAPUA NEW GUINEA", AVAILABLE FROM THE BANK OF PAPUA NEW GUINEA.

5. PATENTS & COPYRIGHTS:
PNG HAS NO LAWS FOR THE PROTECTION OF PATENTS. A PROPOSED COPYRIGHT LAW IS NOW BEING CONSIDERED BY THE GOVERNMENT.

6. LABOR:
PNG IS LACKING IN SKILLED LABOR AND UNSKILLED LABOR IS EXPENSIVE BY WORLD STANDARDS. THE CURRENT URBAN MINIMUM WAGE IS $35 PER WEEK. FIRMS ARE GENERALLY REQUIRED TO PROVIDE A TRAINING PROGRAM FOR PNG NATIONALS.

7. LAND:
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LAND RIGHTS ARE QUITE COMPLICATED IN PNG. THE NATIONAL INVESTMENT AND DEVELOPMENT AUTHORITY (NIDA), THE DEPARTMENT OF NATURAL RESOURCES AND THE VARIOUS LAND BOARDS ALL ARE LIKELY TO BECOME INVOLVED. GENERALLY LAND MAY BE LEASED BUT NOT PURCHASED. LEASES MAY NOT BE TRANSFERRED WITHOUT GOVERNMENT APPROVAL.

8. TRANSPORTATION:
THE GEOGRAPHY OF PAPUA NEW GUINEA MAKES TRANSPORTATION DIFFICULT. AIR NUIGINI RUNS REGULAR AIR SERVICE BETWEEN MAJOR CITIES AND TOWNS. ROADS IN THE MAJOR TOWNS ARE GENERALLY GOOD BUT THE INNER CITY SYSTEM IS STILL BEING DEVELOPED. THERE IS NO ROAD BETWEEN THE CAPITAL, PORT MORESBY, AND THE MAJOR PORT AND INDUSTRIAL CITY OF LAE. COASTAL SHIPPING IS AVAILABLE BETWEEN ALL MAJOR PORTS BUT IS GENERALLY CONSIDERED EXPENSIVE AND NOT VERY RELIABLE. WHARF FACILITIES FOR INTERNATIONAL SHIPPING IN PORT MORESBY AND LAE ARE CONSIDERED GOOD BUT THERE IS LIMITED WAREHOUSE SPACE. MOST GOODS ARE MOVED OUT QUITE QUICKLY. FARRELL LINES, AN AMERICAN COMPANY, NOW OPERATES A DIRECT SHIPPING FROM THE U.S. WEST COAST TO LAE EVERY FOUR TO SIX WEEKS.

9. VISAS:
BUSINESSMEN PLANNING TO TRAVEL TO PNG ARE ADVISED TO OBTAIN A BUSINESS VISA. IT ALLOWS MULTIPLE ENTRY FOR A TOTAL PERIOD OF THREE MONTHS AND IS VALID FOR ONE YEAR. A"C" VISA IS ALSO AVAILABLE FOR PERIODS OF SIX MONTHS TO TWO YEARS. USE OF A TOURIST VISA FOR BUSINESS PURPOSES CAN LEAD TO DIFFICULTIES AND SHOULD BE AVOIDED.

10. INVESTMENT OPPORTUNITIES:
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A MORE OR LESS COMPLETE LISTING OF INVESTMENT OPPORTUNITIES CAN BE FOUND IN NIDA'S "THIRD NATIONAL INVESTMENT AND PRIORITIES SCHEDULE" PUBLISHED IN JANUARY, 1977. A NEW ADDITION SHOULD BE AVAILABLE AT THE TIME THIS REPORT IS PUBLISHED.
INVESTMENT OPPORTUNITIES IN PAPUA NEW GUINEA ARE LIMITLESS. THE GOVERNMENT IS INTERESTED INVESTORS FOR AT LEAST SEVEN INTEGRATED TIMBER DEVELOPMENT PROJECTS, INCLUDING THE VANIMO PROJECT WITH A TOTAL AREA OF 287,000 HECTARES. MANY SMALLER PROJECTS ARE ALSO AVAILABLE.
IN FISHING THERE IS STILL CONSIDERABLE ROOM FOR EX-

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PANSION OF THE TUNA INDUSTRY AND THE GOVERNMENT IS INTERESTED IN DEVELOPING AN IN-SHORE FISHING INCLUDING PRAWN, REEF FISH, AND LOBSTERS. AT THE MOMENT, CURRENT ANNUAL SUGAR IMPORTS ARE 23,000 TONS AND ARE GROWING AT AN ESTIMATED RATE OF 3 PERCENT PER ANNUM. THE GOVERNMENT HAS SEVERAL SITES SUITABLE FOR SUGAR PLANTATIONS AND IS INTERESTED IN PROPOSALS. IT HAS JUST HIRED A BRITISH CONSULTANT TO ADVISE IT ON THE BEST WAY TO PROCEED. THE GOVERNMENT IS ALSO INTERESTED IN PROPOSALS FOR THE ESTABLISHMENT OF RICE PLANTATIONS, BOTH DRY AND WET. THERE IS SOME INTEREST IN A PARTNERSHIP AGREEMENT FOR CONSTRUCTION AND OPERATION OF AN INSTANT COFFEE PLANT.
THOSE INTERESTED IN MINERAL EXPLORATION ALREADY DONE OR UNDER WAY IN PAPUA NEW GUINEA SHOULD CONTACT THE MINERALS ATTACHE, AMERICAN EMBASSY, CANBERRA, AUSTRALIA. THE REPORT ON HIS TRIP TO PNG IN DECEMBER 1976 IS AN EXCELLENT DETAILED SUMMARY ON THE SUBJECT.

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11. MANUFACTURING OPPORTUNITIES:
PAPUA NEW GUINEA IS NOW A MEMBER OF THE LOME CONVENTION AND AS SUCH IS ENTITLED TO EXPORT CERTAIN GOODS DUTY FREE OR REDUCED TARIFFS TO THE EEC. IN ADDITION, IT HAS A LONG-TERM COMMERCIAL AGREEMENT WITH AUSTRALIA IN WHICH AUSTRALIA ALLOWS DUTY FREE ENTRY TO PNG GOODS BOTH PRIMARY AND MANUFACTURED ON ALL BUT A FEW HIGHLY

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SENSITIVE ITEMS. PNG'S ONLY OBLIGATION IS TO GIVE
MOST FAVORED NATION RIGHTS TO AUSTRALIA.THE TREATY
OPENS THE WAY FOR PNG TO BECOME A LOW-COSTASSEMBLY
AREA FOR MANUFACTURED GOODS TO BE EXPORTED TO AUSTRALIA
DUTY FREE. THE ONLY HITCH IS THAT AT LEAST 50 PERCENT
OF THE VALUE OF THE FINAL GOODS MUST COME FROM PNG OR
AUSTRALIA.
INDIVIDUALS WISHING INFORMATION ON INVESTMENT IN PAPUA
NEW GUINEA SHOULD WRITE THE NATIONAL INVESTMENT AND
DEVELOPMENT AUTHORITY, GOVERNMENT OF PNG, PORT MORESBY,
PAPUA NEW GUINEA. IN ADDITION TO THE ABOVE-MENTIONED
PUBLICATIONS, ONE SHOULD ALSO REQUEST "INVESTOR'S
GUIDE TO PAPUA NEW GUINEA". THE U.S. EMBASSY ALSO DOES
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ITS OWN ANNUAL FOREIGN INVESTMENT REPORT. THE LAST ONE
WAS AIRGRAM A-53 DATED AUGUST 30, 1977. COPIES ARE
AVAILABLE FROM THE U.S. DEPARTMENTOF STATE AND THE
AMERICAN EMBASSY, PORT MORESBY, PAPUA NEW GUINEA.

12. VITAL STATISTICS: FY 75 FY 76
VALUES IN MILLIONS OF DOLLARS US FISCAL YEARS JULY 1-
JUNE 30
GDP AT CURRENT PRICES 1311.8 1347.6
PER CAPITA GDP 475.9 476.3
CONSUMER PRICE INDEX
END OF FISCAL YEAR(6/30) 154.1 167.3
EXPORTS FOB 564.6 556.0
U.S. SHARE 6.2 6.8
IMPORTS (CIF) 632.1 641.0
U.S. SHARE 8.3 7.2
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Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3429401
Secure: OPEN
Status: NATIVE
Subject: UPDATE OF INVESTMENT CLIMATE STATEMENT
TAGS: EINV, EIND, EFIN
To: STATE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/d0c8cdcc-c288-dd11-92da-001cc4696bcc
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